

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

JOSE ENCARNACION, FELIPE MEDALLA, and UNIDENTIFIED MAN

**November 29, 1991
Quezon City, Philippines**

Interview by: Richard Webb, Devesh Kapur

FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997. It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

*Jose Encarnacion and Felipe Medalla
November 29, 1991 - Verbatim*

*[Begin Tape 1, Side A]*¹

ENCARNACION: . . . this is a more friendly--this is my personal experience. They really wanted to make the entire thing fungible to the point where the U.S. government wanted—because they knew that the debt overhang was a problem--to make it easy for the Philippine government to come up with counterpart funds, they decided to count regular expenditures, to do the count anyway. You know what my direct experience was? They sent SGB [*phonetic*] over to UP [*University of the Philippines*] to look at UP expenditures, disbursements. You see, it turns out that the UP disbursements were part of the counterpart. So sometimes fungibility was . . .

WEBB: It would suit them, yeah.

ENCARNACION: . . . was essentially—I mean, knowing that the debt overhang was a problem, because it's ridiculous to think that UP, the expenditures of universities, would not have taken place without the aid and to accept it as counterpart really show you that there was a time when they were completely, totally liberal. There was--official lending tends to take, more than most of us would accept or state openly, more political nature.

WEBB: When did that happen?

ENCARNACION: Early, right after the '86 revolution; it was '87, '86, '87.

KAPUR: Was it a way to give, provide a cushion . . .

ENCARNACION: Yeah, a cushion.

KAPUR: . . . for the new government?

ENCARNACION: And so they were all over the--they were just looking at disbursements. They didn't care what it was as long as we can show that the money was spent. But I think now the World Bank must really want to make sure that when they fund projects they're not just funding . . .

MEDALLA: When you say now, is this after the second rejection of the Paris agreement?

ENCARNACION: Maybe after the honeymoon.

MEDALLA: After '87?

ENCARNACION: After one or two years. So--it is unavoidable to overrule them. It's not just the World Bank. All the official lending takes, responds quite a bit to political popularity, weakness. And of course [*Ferdinand E.*] Marcos was absolutely kicked around by the very group that was very supportive. He was--after the assassination of [*Benigno S., Jr.*] Aquino I think he got squeezed a lot more than

¹ Original transcript by Brookings Institution World Bank history project; original insertions are in []. Insertions added by World Bank Group Archives are in *italics* in [].

would have normally been the case--I mean, the monetary targets, the slowdown in the lending, which turned out to be good because it sped up the fall of Marcos.

The squeeze of --is it '85? *[inaudible]*

KAPUR: You see the World Bank figures which we have for lending to the Philippines . .

WEBB: You might be interested in--yeah. *[seems to hand over a set of figures]*

KAPUR: . . there is a sharp fall around '83.

MEDALLA: Late '83?

KAPUR: From '83 to '86 a sharp decline. Then it again picks up.

ENCARNACION: I think it would not be too strong a statement to say that the behavior of the World Bank, IMF *[International Monetary Fund]* and the rest of the world contributed to speeding up the fall of Marcos, much the same way that they themselves propped it up for quite some time.

MEDALLA: It was '84 during the drop, after the Aquino assassination.

ENCARNACION: The squeeze was unbelievable.

MEDALLA: It dropped from '83 to '84.

WEBB: It was a big drop.

MEDALLA: It was. 1983 Aquino was assassinated.

WEBB: These are commitments, so the pipeline figures, so I don't know what the actual disbursements, change was. But this was like an attitude because it's a better reflection . . .

MEDALLA: There was a big drop from '83 to '84, and I can see why.

KAPUR: And August '83 was the assassination?

MEDALLA: August of 1983.

ENCARNACION: So you see, quite a bit still in '83 because of . . .

KAPUR: It was late.

ENCARNACION: It was late August.

MEDALLA: *[inaudible]* commitments.

KAPUR: Right.

WEBB: Was the U.S. official attitude--they hadn't changed it, had it, after the assassination?

ENCARNACION: Well, I think the U.S. had—I had the impression that the U.S. itself had some division. State Department people were much, much more like the World Bank and the Defense Department more like business as usual.

WEBB: Yeah. In the Bank we have access to all the files that deal with you. Maybe there will be something, some memorandum, that helps to understand why this slowdown. They normally justify it to themselves as to why.

KAPUR: But was your sense that the Bank slowed down its lending as an independent assessment that reform was not going or because of, say, U.S. pressure through the Bank?

ENCARNACION: I think those looks, more or less came to independent conclusions. Any money that goes to Marcos government would be throwing good money after bad. Not only that: nobody wants to be associated with a government that's obviously unpopular, obviously has very little legitimacy. That is there simply because of having the military [*inaudible*] and that was why support was forthcoming. That was very critical.

Now, I think what would be rather curious would be how the World Bank would behave in respect to a government like Burma, Myanmar, where the illegitimacy of the government is even more obvious than . . .

KAPUR: They have not lent there since '85.

ENCARNACION: So they didn't. But I think—I think it is unavoidable to conclude that many of the decisions are based on technocratic, economic considerations. The bottom line is political judgments are made on how much support will be given or withdrawn.

WEBB: It is true that in 1986--well, '84, '85, '86--the country was going through a lot of downturn difficulties, deficits, and there were kind of easy macroeconomic reasons for the Bank to slow down lending. On the other hand, I don't know if now is so much different, and the lending now is almost three times higher.

ENCARNACION: Yes, [*inaudible*] that's right.

WEBB: Last year it was extraordinarily high: 900 million, 940 million.

ENCARNACION: But at the same time when you look at the World Bank close and IMF close, they really pale in comparison with interest payments made to commercial banks. So in a way this is quite different from--in the Marcos period, the World Bank and the IMF were basically funding bad behavior of the dictator. Now they're--it is essentially—a lot, quite a bit of it is the--commercial banks are in a sense free riding on--I mean, how much new money have they lent to the Philippines since '86?

UNKNOWN MAN: Commercial banks?

ENCARNACION: Yes, commercial banks.

UNKNOWN MAN: No, it's been all negative resource structuring.

ENCARNACION: Yes, so very little new money and tremendous amount of interest payments. I think the last figure I saw was a net outflow of 5 billion during the period.

UNKNOWN MAN: Yeah, that's right.

MEDALLA: Over two years.

ENCARNACION: No, since the Aquino government took over.

MEDALLA: Over four years, five years.

WEBB: How much is being paid to commercial banks a year? Do you have any idea?

ENCARNACION: It varies.

UNKNOWN MAN: One point nine, one point five.

ENCARNACION: It's very sensitive to LIBER [*London Interbank Offered Rates*], of course.

WEBB: What? That much? [both speaking at once]

ENCARNACION: It's very . . .

WEBB: One and a half billion. [both speaking at once]

UNKNOWN MAN: Yeah. It's way down now.

ENCARNACION: It's way down now. You're in the pit. You're in the pit. The interest rates were higher. [both speaking at once]

WEBB: Why is it down now?

ENCARNACION: The loans are lower [all speaking at once] much lower.

MEDALLA: Interest rates are lower.

WEBB: You think it's down to what a billion now, something like that?

ENCARNACION: A billion or even 750 million. The commercial bank loans are down to seven billion from as high as more than ten.

UNKNOWN MAN: And you see the peak of the multilateral commitments and the bilateral commitments was really the argument of the previous administration to reverse the resource transfer because they couldn't get away with reversing the resource transfer with commercial banks, so they were saying that maybe Japan, the World Bank, U.S. government, the Japanese government . . .

WEBB: A lot of countries now are, have stopped paying interest to commercial banks.

UNKNOWN MAN: Well, the Philippines is not . .

ENCARNACION: *[inaudible]*

WEBB: I'm surprised with such a . . .

ENCARNACION: Central bank officials were boasting that during the three days of the revolution they were paying interest. Guillermo Olivares *[phonetic]* was so proud about that. But I think, if I recall correctly, since the *[Corazon]* Aquino government took over they paid some more than 7 billion of interest payments to commercial banks and maybe got less than 1.5 billion new money. So in that sense this kind of lending from the World Bank is necessary for that kind of--well, on top of that we had--the Philippine bought back some debt.

KAPUR: One point two billion . . .

ENCARNACION: One point two billion. So you're talking here of 6 billion dollars of outflow, net outflow, and it had to be financed somehow, and official lending was inelastic.

WEBB: There's no--there isn't a general kind of sharp opposition to this, is there, in the public?

ENCARNACION: It's very popular. In surveys it's very popular.

WEBB: The service or . . .

ENCARNACION: The surveys, the surveys.

WEBB: Oh, the surveys.

ENCARNACION: We can survey the debt, the government's handling. Maybe you should talk to Mahar Mangahas of Social Weather Stations. He will know better.

WEBB: We talked to him yesterday, but we didn't mention this particular . . .

ENCARNACION: I think they've done some surveys, and it's rather the--this policy of not missing a beat on commercial lending, and even to the extent that they were doing official borrowing just to . . .

WEBB: But everyone in the government is agreed on the current policies?

ENCARNACION: That's right, most of that is outside the government. Actually, they do not like the policies.

WEBB: Mr. Ahuro [*phonetic*], you weren't here at the beginning. I mentioned that I'm a Peruvian. And I . . .

UNKNOWN MAN: Now I remember. Yeah. I wanted to go to Peru at one time in 1960 [both speaking at once] I probably talked to you over the phone.

WEBB: That's right. Mrs. [*Solita "Winnie"*] Monsod came to Lima because she wanted to see what Peru was doing, and I had just left the government.

UNKNOWN MAN: Right. Now I remember.

ENCARNACION: Oh, yeah! That's why your name sounds familiar. She was telling me that she was looking for you, yeah.

WEBB: That's my Filipino contact, the only time that we've . . .

ENCARNACION: On another point, there was a conflict in government. The central bank governor, Jose Fernandez, and then the late Jaime Ongpin, who was the finance minister, on one side of the issue, and Monsod was the other side, and Monsod felt the fear of being too soft on the commercial banks. Also, I think she—obviously she lost out.

And I was telling Richard here that maybe it's unfortunate that before, when we were protesting against Marcos, Winnie used the term “selective repudiation” because many of her [*inaudible*] unfairly hounded those two words on her even when that was no longer her--of course, I think the entire strategy of the other side was to make Winnie look like a mad, unreasonable person.

WEBB: Yeah, yeah, I can see that. I experienced that myself in Peru when I was in the central bank. It's a very religious thing. Yeah.

ENCARNACION: As long as you know the details. She was [*inaudible*] for three years.

WEBB: She's away right now, isn't she?

UNKNOWN MAN: Yeah, I think so.

MEDALLA: Is she in New York?

UNKNOWN MAN: I think she's in New York.

WEBB: Well, this is one route. A lot of countries are continuing to service despite the fact that it's bleeding them. One of the most extraordinary cases is, if you look at Latin America, the country with the biggest negative transfer is Chile and it's the country that is growing the fastest. It makes you think.

*Jose Encarnacion and Felipe Medalla
November 29, 1991 - Verbatim*

UNKNOWN MAN: It's the exception that proves the rule.

WEBB: Yeah, well.

ENCARNACION: That's not really contradictory because the analysis here, though, is as big as the debt issue is, internal inefficiency as being a source of stagnation, and protectionists--the amazing durability of the protectionist lobby, how tariff reform was emasculated, how much weaker 304 was [*inaudible*] relative to 413.

WEBB: What's that?

ENCARNACION: Well, there are two executive orders on tariff reform, EO 470 and EO 413, and how much weaker the new version is relative to the old version, and this despite World Bank--by the way, we are deep in tariff reforms, but this despite the power of the World Bank and IMF.

WEBB: Did they actually go back, raising tariffs?

ENCARNACION: No, a lot of things were given a five-year . . .

WEBB: Oh, I see.

UNKNOWN MAN: Staggered. Too long.

ENCARNACION: Philippine history shows that anything started in five years will be started in another five years down the road. Some people will forget—people will forget that this guy got a five-year postponement; he'll get another one.

KAPUR: Is an external agencies like the World Bank seen as a sort of neutral to current vested interests? This is the same story, say, in South Asia where this has happened, and therefore the people who want change—and tariffs is obviously one very strong area--see the Bank as an ally. And they want to do something; they cannot do it because of strong domestic vested interests and say, “Look, we have to do it because the Bank or the Fund is saying.”

ENCARNACION: That often backfires.

KAPUR: So that backfires.

ENCARNACION: Yeah, because if you have a domestic constituency advocating certain reforms--it's sometimes the case of [*inaudible*]--we associated, unfortunately the term “nationalist” has been appropriated by protectionist groups. And then the pro-tariff group runs out of arguments, then they say, “Well, you are World Bank lackeys. You are IMF lackeys,” and that is a major source of confusion in how people define economists. They see them agreeing with the World Bank and IMF on certain issues, and they see them disagreeing with the World Bank on certain issues, and they just don't fit the label of “World Bank opponents” or “World Bank lackeys.” But, of course, the propaganda is always to try to make you look like one. So I don't find very helpful—especially with the restoration of checks and balances; the legislature

being quite independent--I don't think it's very helpful. Sometimes it helps, sometimes it doesn't, to have the World Bank and IMF on your side.

UNKNOWN MAN: But the technocrats in the previous administration used the World Bank as an effective ally to get reforms.

WEBB: Publicly they would use the . . .

KAPUR: Or privately with Marcos?

UNKNOWN MAN: Well, both publicly and privately. Privately they would say that, you know--they would tell the president that, you know, "This is what the Bank is saying, so you've got to"--paying his cronies, you know, saying that these are some of the reforms.

WEBB: What would be their selling point? Basically the money?

UNKNOWN MAN: Yeah, especially during the last few years of the Marcos administration.

KAPUR: That our hands are tied because the Fund and the Bank say "no" unless . . .

UNKNOWN MAN: The structural adjustment loan, the first SAL of the World Bank, was a case in point. That's where they tried to push reforms. And everybody agreed, but they just reversed whatever policies they had made a few months after it's done.

KAPUR: After they got the money?

UNKNOWN MAN: After they got the money, right.

ENCARNACION: But theoretically a man like Marcos could have had an easier time pushing those reforms. He had greater skills.

UNKNOWN MAN: Sure.

KAPUR: Have you seen this book by Robin Broad? What is your reaction?

UNKNOWN MAN: Some of it is accurate. Some of it is lopsided.

ENCARNACION: Some of it is just plain rotten!

UNKNOWN MAN: That's right.

ENCARNACION: I really—I think the idea that because the--the comparative advantage cannot be ignored. I mean I think they tend to downplay labor incentives and emphasize exports too much. Obviously there is some positive role to play. At the same time, I think the—their [*inaudible*] is in a sense the World Bank and the IMF were not altogether neutral political players. They did take sides. Sometimes they took the right side; sometimes they took the wrong side.

WEBB: It really is a big question just how wise and/or legitimate this, what's been happening in this last decade of virtually substituting World Bank and Fund money for commercial banks.

ENCARNACION: Well, we've read reports that the World Bank itself is unhappy about that. I mean, World Bank leaders have made statements that it is really no good that official lending is increasing only to make the *[inaudible]* the financial position of commercial banks.

WEBB: I think in specific negotiations sometimes it seems more accommodating, I mean, particularly for countries that have already stopped payment, some Latin Americans. In Peru they don't want Peru to pay the commercial banks.

ENCARNACION: So the World Bank lending has stopped.

WEBB: Yeah.

ENCARNACION: But that is completely the opposite of the Stanislav *[phonetic]* propaganda. If you'd asked me *[inaudible]* saying that if you are too rough with the commercial banks, the official lending will also go down. The behavior in Peru seems more logical, that the World Bank wouldn't want its money . .

?MEDALLA: To be used to pay commercial banks.

WEBB: Yeah. Except that the American governor or Board *[of Executive Directors]* member, maybe he does. The Treasury does, and they clearly use the Fund and the Bank, I mean.

ENCARNACION: Now we have--the American banking system is less shaky, so maybe that was understandable, say, three to five years ago, that American hegemony will be for saving the commercial banks, but now that it is obvious that the commercial banks have got the *[inaudible]*

KAPUR: But I think the World Bank is perhaps a little more worried, not about its own lending program with countries who repudiate commercial bank debts or political arrears but of countries which have consultative groups, aid groups—the Philippines also has one; I guess the MAI *[Multilateral Assistance Initiative]* or whatever--whether the other official lending will dry up, because, say, over here I would imagine the Japanese and U.S. banks have perhaps the largest debt exposure, whether that amount of official lending can be affected rather than the World Bank's own.

ENCARNACION: Of course, the biggest official lender is Japan.

KAPUR: Is the debt exposure of Japanese commercial banks the highest?

ENCARNACION: Not with us. The American banks have the . . .

KAPUR: It's official Japanese?

ENCARNACION: Official Japanese is larger. [seems to be a pause on the tape] American commercial is largest. So I don't think the Japanese would reduce official lending provided we have a very rational procedure for a, attitude towards the official lending which was even--meaning from day one the government wanted to project that the government debts would be honored, official debt.

KAPUR: The Japanese position is reasonably conservative on this because when Poland and Egypt that have, happened--the Japanese were asked to come to terms with them, they are not as accommodating on this.

ENCARNACION: Well, but my point is you don't--the correct strategy is to--don't make any alarming statements whatsoever about official lending but [several speaking at once]

MEDALLA: Just do it.

KAPUR: Just quietly, and don't say much.

UNKNOWN MAN: That's just exactly what the Indonesians are doing. Most of their debts are junked up, debts to the Japanese government. They've been able to get some debt relief.

KAPUR: Recently or . . .

UNKNOWN MAN: At least about two years ago or a year ago when I was still in government.

ENCARNACION: That is—I guess your point about Peru is that a lot of things that have happen to a country may have little to do with the debt funds. And when you have policies like Chile's, very, very market-oriented, less and less distortion and greater fiscal, monetary responsibility, sooner or later some growth will come.

WEBB: Yeah, and in Peru, where we were--even though we were not paying debts, we actually had a positive transfer because there were still some bilaterals coming in and zero payment in the last years of our [inaudible] So--and yet those were disaster--well, hyper-inflation, total disaster.

But I think people forget private money, and whether one likes it or not, I think the private sector is quite simplistic, and I think the rules for them are pretty straightforward. If the government is being orthodox fiscally, financially, then they'll have more confidence. If it's being unorthodox, they get worried and the money goes out. So even though it may be arithmetic, official debt payments, it doesn't seem logical, it pulls in, and it may more than compensate. I think that's part of what's happening in Chile.

KAPUR: The FDI [*foreign direct investment*] was very sharp.

ENCARNACION: They were both [inaudible] result in more protectionism in Chile? There was some rolling back of [*Augusto D.*] Pinochet-type late policies.

WEBB: No, it hasn't, I think. You're asking about the future?

ENCARNACION: Yeah.

WEBB: Future? Prediction?

KAPUR: It's been, what, more than two years now since Pinochet left, roughly?
[several speaking at once] very, very strong feeling that . . .

ENCARNACION: The more you take the right policy, you have--sooner or later it will develop its own sort of constituency.

WEBB: Absolutely. And also they're boxing themselves in a bit with free-trade agreements, a written agreement with the States, and that will really make it harder to go back there. And I think they're pursuing a separate agreement with Mexico.

ENCARNACION: Maybe that's the way to do it.

WEBB: Yeah.

KAPUR: In a way, if I guess the Philippines had a free trade agreement with the kind of, with the rest of the ASEAN [*Association of SouthEast Asian Nations*] which themselves were much more liberal, or most of them . . .

WEBB: You know Indonesia? Have you been . . .

MEDALLA: Well, the reason why I'm familiar with that is because many times in the past the Philippine government wanted a solid ASEAN voice that there's a need to relieve debt problems with the Philippines and Indonesia. And every time that that statement is made, the Indonesians will always shoot it down, saying, "We don't want anything said about debt because we are negotiating ourselves, and we don't want to have anything stated in public that we are in favor of debt relief." So they were getting what they wanted.

WEBB: No obligations.

MEDALLA: No nothing.

WEBB: We were just there now. We spent a week there, talking to lots of people in the government and some private and the Bank office there, and it's just incredible the contrast between that situation and here in terms of the relationship between the Bank and the government. They have a terrifically close and long relationship with the Bank, very intimate—day-to-day contacts, confidential memos--and nobody in the government would admit to the slightest crack in the relationship. It was a perfect marriage according to everyone. When we interviewed and talked about it, always they would insist, "No, there are no problems." And on the Bank's side also. So there's this sense of the most incredible orthodoxy. But underneath that, of course, they are doing things, like you say, they are renegotiating, pressing, whereas here everything is so . . .

UNKNOWN MAN: So open.

WEBB: Open and changing.

UNKNOWN MAN: No, the Philippines never succeeded in getting Indonesian support like that. The institutions never agreed. You know, I ended up--I write a one-page statement for the ministers to agree, and the *[inaudible]* minister, when he is done, leaves two sentences. Worthless.

ENCARNACION: One other thing that explains the difference between Indonesia and Philippines is when you look at the role that foreign economists played in studying structural and economic analysis across Indonesia, at least the economists that participated--Australian, American, Filipino, many, many, many countries are there--and even after all these studies have been done, you have Harvard, HIID [*Harvard Institute for International Development*], running, practically having an office in Finance.

KAPUR: They do have. Many offices.

ENCARNACION: Yeah.

MEDALLA: A friend of ours works *[inaudible]*, too.

ENCARNACION: *[inaudible]* I mean, the kind of backlash that would invite here. I mean, in a way maybe the Indonesians are more secure about the participation. As I say, if NEDA [*National Economic Development Authority*] or any government office had a section that came from—I mean, the papers would not--you would probably be facing editorials in the dailies for about two weeks.

WEBB: You know, something that's really extraordinary is that what you're describing here is exactly how Peru was until about two years ago or three years ago, and now it's totally different. But it's like this. Now there was an opinion poll, just like Mahar's, an opinion poll done: "Do you think Peru should go back to the Fund?" About 70 percent said, "Yes." Seventy-five percent, I don't remember. Most of the public now has a simple--they don't understand anything about it, but they have a simple image: the Fund is good. Fund: I think they think means money. Anti-Fund: *[Alan G.]* Garcia, chaos, inflation.

UNKNOWN MAN: It's a simple way of looking at that.

WEBB: Absolutely simple. And now there are Fund missions everywhere in Peru, in the tax office, and World Bank missions all the time, and they, these World Bank missions, help everyone. Most economists now, of all colors, try to have contact with the World Bank, and they respect them, they take them very seriously. It's been like a purge.

ENCARNACION: But Peru is still rather protectionist now.

WEBB: No, our tariffs have been reduced to . . . *[both speaking at once]*

*Jose Encarnacion and Felipe Medalla
November 29, 1991 - Verbatim*

UNKNOWN MAN: It's a uniform tariff now?

WEBB: I think there're two, 25 and 15. Most are at 15.

ENCARNACION: No more multiple exchange rates?

WEBB: No. Zero capital fund restrictions, one floating rate, which changes every day but floats *[inaudible]*

MEDALLA: Full convertibility?

WEBB: Full convertibility. Foreign companies can now remove profits without restrictions, et cetera.

ENCARNACION: I think here even the elite, when for them it's convenient, goes World Bank bashing. Like if I own car assembly plant, so I'm a big guy, I'm not exactly--I probably live better than the richer Americans, but these are the same people who cry about World Bank intervention, credit system. And I think the most recent--I'm doing a little bit of consulting with the commission bus operators of the Philippines. They're now very mad at the World Bank for present day regulations, which I'm told is very good. Of course, it's very hard to convince bus owners that regulation's good if they're *[inaudible]* But it's--so, you see that--and these groups are fairly, fairly, very well organized, and they have very, very good access to the press. So sometimes if they need they'll promote the anti-World Bank, anti-IMF--sometimes it's the—because the common person who pays taxes, because unavoidably the taxes which are collected hits everybody. So on the one hand you have the general public being very mad about high gasoline prices. People say, “Well, why are gasoline prices high?” Well, these are taxes that can be collected *[inaudible]* legacy.

WEBB: To pay the teachers.

ENCARNACION: Well, so very anti-World Bank as far as taxes are concerned. Populist senators of course echo the line. On the other hand, you hear industrialists like *[inaudible]* organizations, the World Bank *[inaudible]* So it cuts--the various different groups are mad at the World Bank for different reasons.

And, of course, the unions are strongest in the protected sectors. The unions are strongly protected in some sectors and they are bound to be very, very anti-trade organizations, very, very anti-tariff reforms. These are very, very well organized, articulate.

WEBB: Do the Bank staff people do much diplomacy? Do they ever come here?

MEDALLA: World Bank staff? Of course.

WEBB: The representative, Mr. *[Thomas W.]* Allen, you talk to him?

ENCARNACION: Normally.

WEBB: Yeah. Who comes? People on projects? [all interviewees speaking at once]

MEDALLA: Teams.

WEBB: Teams. Do they come mostly to get information, or do they come to try to sell, start a discussion, a dialogue?

MEDALLA: They don't usually talk [*inaudible*] central bank and finance ministry.

ENCARNACION: Well, [*inaudible*] I think the . . .

WEBB: I mean to the University.

MEDALLA: No, no.

WEBB: They don't come to the University?

MEDALLA: No, not as far as I know.

ENCARNACION: No, but we used to get at least one group every week, a year before Marcos fell and a year after he fell. [all interviewees speaking at once] So we were getting . .

MEDALLA: Those were not the annual visits. Those were just because of the crisis.

ENCARNACION: Teams. Well, some of them are just academics hired by the World Bank for the teams. Isabel . .

UNKNOWN MAN: Isabel Guerrero. Philippine desk.

ENCARNACION: They have several others coming with them, too. Marcelo Selowsky was here, too. I mean, we never had any lack of World Bank visitors during that period, '85 to . . .

UNKNOWN MAN: '84, '85.

ENCARNACION: Yeah, '85 to '87, I suppose. [*inaudible*]

KAPUR: But not now, the last few years? I mean, no one comes to give a seminar? Or is there a dialogue: you know, that we're thinking of doing this; what do you guys feel? There's no interchange?

ENCARNACION: There was this guy who came over to have lunch, you remember? [several speaking at once] What was his name? Guy with a Dutch . . .

MEDALLA: Germany?

UNKNOWN MAN: Markus Roediger [*phonetic*] [all speaking at once]

MEDALLA: Not any of his predecessors.

UNKNOWN MAN: They're just physically too far away.

MEDALLA: Yeah.

ENCARNACION: But you know, their coming here is totally a typical of--they're coming to the university because--what you must know is the school of economics. The rest of the university has a hard time placing it [*inaudible*] Some people hate us here. They think--some people think that the school of economics is too pro-market. Some people even think that we are too orthodox. It's really strange because the outside people, the protectionist groups, think we're too radical, and university radicals think we're too orthodox. So it's a . . .

WEBB: The world is changing. The divisions are changing.

ENCARNACION: But that has always been the case, I think, with economists from schools of economics. They are always said to be to the right of the rest of the university and to the left of . .

MEDALLA: Outside the university.

ENCARNACION: Outside the university. But that's why I think they--when they come here, there is really no problem because basically it's very hard to find issues where we have very strong disagreements with the World Bank these days.

WEBB: Yeah.

ENCARNACION: What's the name--Johannes Linn was here.

UNKNOWN MAN: Yes. He was here several times, many times. He's got his own interests, anyway, Johannes Linn.

WEBB: Why?

ENCARNACION: Well, they sent that team over, right after the fall of Marcos, the World Bank sent a team over to the Philippines to look at restarting their Philippine program. I think they went to several places.

UNKNOWN MAN: Well, actually the reason why they went to see so many people was because they wanted to find out what kind of economic program was the new government going to put up, so they had to talk to as many academics who were part of that preparation.

WEBB: And Linn came with them, did he?

UNKNOWN MAN: Oh, a whole team headed by Norman Hicks.

WEBB: Uh-huh.

ENCARNACION: But Selowsky was here. Selowsky came.

*Jose Encarnacion and Felipe Medalla
November 29, 1991 - Verbatim*

UNKNOWN MAN: For another mission.

ENCARNACION: Yeah, and also he presented a more academic paper, a more journal type than the fellows who came when Selowsky was here, so Selowsky's lecture was a far more typical university academic paper than policy paper.

UNKNOWN MAN: They were very visible in the early years, '86, '87, first when the government was preparing its programs, second when new loans were being negotiated.

WEBB: Do you think they have private conversations with top business lobbies?

UNKNOWN MAN: Oh, yeah.

WEBB: Yeah. Bankers, politicians?

UNKNOWN MAN: Yeah.

WEBB: Left?

ENCARNACION: I don't know about the left. I don't think they ever talk to the left.

WEBB: But not just the government.

UNKNOWN MAN: No, not just the government.

ENCARNACION: I think they talk to organized business groups also.

By the way, on the other side the U.S. government also sent a group, too, like an old hand in the Philippines . .

UNKNOWN MAN: Scott Brady [*phonetic*]

ENCARNACION: Scott Brady was here several times.

WEBB: For the World Bank?

ENCARNACION: No, for USAID [*United States Agency for international Development*] [all speaking at once]

WEBB: Oh, I'm sorry, you said AID. I see.

ENCARNACION: But of course it was natural that they came at that particular time because it was a good time to come because nobody knew what the program was going to be, so it was a good time.

KAPUR: The World Bank even tried to sell a thing for land reform.

ENCARNACION: What?

KAPUR: The UN tried to sell--did they ever? In '87?

ENCARNACION: I don't think so. In fact, I think Gus . .

UNKNOWN MAN: I think it was the Philippine government which was . . .

ENCARNACION: I think Gus Linn said something very prophetic. He said, "Indecisive land reform is worse than no land reform at all." And this has happened a lot in the Philippines. You have government trying to please landlords and peasants at the same time, so you end up with a program that . .

UNKNOWN MAN: Nobody likes.

ENCARNACION: Nobody likes, and implementation is so slow that it's probably worse than having a land reform. Investments just slow down because of uncertainty. So I think Gus--I distinctly remember Renes [*phonetic*] saying something like that, you know, "If you're going to have land reform, you'd better make sure you're really going to do it precisely because otherwise don't do it at all." And I think again he knew enough about the Philippines to know that it would just cause a stalemate.

UNKNOWN MAN: I think it was Renes [*phonetic*] who spent more time here at the university than the World Bank . .

WEBB: Really.

UNKNOWN MAN: . . although Gus did talk to more, a lot of people, but . .

[End Tape 1, Side A]

[Begin Tape 1, Side B]

WEBB: . . an exception.

MEDALLA: I think the Philippine government did have a very strong statement on land reform, but it just eroded on them.

WEBB: The Cory [*Corazon*] Aquino government, yeah, yeah. Did you see the World Bank report?

ENCARNACION: The latest one?

WEBB: No, on the land reform. It was '87.

ENCARNACION: Oh, yeah, yeah. That's right. I saw that.

WEBB: It was quite a strong argument. It's interesting as a part of the history of the Bank that they would take such a strong position.

MEDALLA: And the [several speaking at once] Bank took a strong position on debt as well, but, you know, that was at the level of the green covered . . .

WEBB: You mean the Philippine debts?

MEDALLA: Philippine debts.

WEBB: What was their position?

MEDALLA: Their position was that there was a need for debt relief.

ENCARNACION: This was a resource transfer.

MEDALLA: It was a resource transfer. And we were, you know, we were pitting them against the IMF. We were telling them that, "Here, you know, put your word where your mouth is. Talk to the IMF."

ENCARNACION: Well, that's true. On the debt issue the IMF has been seen as a bad guy more than the World Bank.

KAPUR: This was which year?

MEDALLA: Oh, like '87, I think it was.

KAPUR: '87.

MEDALLA: Or '88.

WEBB: This was the country economic memorandum?

MEDALLA: Yes, right, country guidelines.

WEBB: That's an interesting . . .

MEDALLA: Because one of the things that was being done by the group at the Bank was they were running this model of—oh, god, what's the name of this; he works on Johannes Linn's staff but he was with the Philippine desk. He had a model, economic growth model.

WEBB: For the Philippines?

MEDALLA: For the Philippines looking at different debt scenarios. So that was their basis. And that was consistent also with the Philippines model, so, you know, while we just said, "Talk to the IMF because that's"—and then all of a sudden they just keep quiet, which meant that they didn't get the message across really [*inaudible*]

WEBB: You were still in NEDA [*National Economic Development Authority*] then?

MEDALLA: Yes.

KAPUR: And did NEDA sort of press them as to what happened?

MEDALLA: Well, we understood.

WEBB: Reading between the lines.

MEDALLA: That's right.

KAPUR: Silence was more eloquent.

MEDALLA: That's right. Oh, we--in fact there were many negotiations in Washington where—well, a number of negotiations in Washington where the World Bank excused themselves from a meeting in the IMF because we were going to say that, “Well, this is what your people across the street say,” you know. Of course, they didn't want that.

WEBB: Yeah, you often see these little adventures by some levels of the staff that then get disciplined.

KAPUR: And it goes to the top.

MEDALLA: That's right, and it goes to the top.

WEBB: The land reform one, all the way up . . .

MEDALLA: Oh, yes. That's right. Even the VP supposedly.

KAPUR: And was it a sense that the World Bank, that the role it played, was what? Competent? It tried its best and really limited the GOP [*Government of the Philippines*] or it could have pushed more?

MEDALLA: I don't know; it's difficult to say. They could probably have pushed more. You know, the Bank is difficult to--the Bank generally has its own interest in lending money. You can't fault them for that. I fought the—you know, I argued with Tom Allen about this export development fund, 150 million dollars they are lending to the central bank for financing exports. And I said, “You know, there's a superior alternative to that, and that is have the exchange rate fully convertible. Let exporters retain 100 percent of their earnings.”

WEBB: You argued that?

MEDALLA: Yeah, and I said, “You know, you World Bank people, you're supposed to know macroeconomics. You know that there is a superior alternative to that, and then we don't we have to incur any debt!”

ENCARNACION: How much is the retention now? Two percent?

MEDALLA: Two percent. So it's 150 million dollars up front.

ENCARNACION: The exporters are allowed to retain two percent of their receipts, and then they need foreign exchange to get it back.

MEDALLA: To buy it back.

ENCARNACION: Buy it back.

WEBB: So what did Allen reply to that?

MEDALLA: Well, Allen--it was a public forum. Allen's reply [all speaking at once] was, "Well, we are helping--the purpose of the loan is to help indirect exporters and small exporters" [background conversation through this section is drowning out some of the speaker's words.]

ENCARNACION: A lot of exporters were very angry about this.

KAPUR: A fund like that always creates another distortion.

MEDALLA: That's right.

WEBB: Well, do you think he just simply didn't want to disagree with the central bank in public?

MEDALLA: I don't know. I mean--no, no, no. The central bank and the department of finance are really looking for money.

WEBB: But who's in favor of the retention? The central bank?

MEDALLA: The central bank, yeah.

ENCARNACION: The central bank has a very short term objective. [several speaking at once] There's a foreign exchange crisis so do something to reduce demand.

WEBB: To me it's a surprise to see that the central bank seems--for the last 10, 15 years at least--to have been on the interventionist side of the debate. [several speaking at once]

ENCARNACION: The central bank has always been interventionist . .

MEDALLA: It's always been interventionist.

ENCARNACION: . . as the foreign exchange goes.

WEBB: Foreign exchange and also interest rates, financial policies?

ENCARNACION: Because that's the source of their power. The central bank . .

WEBB: It has a bureaucratic explanation.

ENCARNACION: You have very little clout without it.

WEBB: But despite that, you find most countries are—well, not most, many countries--where it's the reverse. The central bank is more liberalizing.

KAPUR: Here it seemed that NEDA was more in favor of liberalizing this than the central bank, but in most countries the planning commission, say, is much more interventionist. The central bank is the other way.

ENCARNACION: There are two possible explanations for that. One is that NEDA has economists. The other one is NEDA has no power! *[Laughter]* It's just an advisory group, so no . . .

But I think there's another reason why the central bank is very interventionist on the exchange rate. The central bank now holds mostly, a huge amount of foreign bills. In fact, they're rather secretive about the amount, but . . .

WEBB: Foreign money?

ENCARNACION: Yes, foreign money is in the central bank, to a large part. So any devaluation makes a financial statement of the central bank look bad. So I think something has to be done about the foreign exchange liabilities of the central bank for the central bank to be rational about exchange rates. The national government must absorb the foreign exchange *[inaudible]*

WEBB: So they're just—they've incurred debts to . . .

MEDALLA: They're carrying the debts.

ENCARNACION: There are two sources of the debt. One is the Marcos period. The debt was part of exchange rate defense. The central bank was borrowing, or encouraging borrowing to defend exchange rate. Of course, the most internals were in swaps where you can get the central bank encourages private people to borrow and then swap this borrowings for pesos at very low interest rates. So private borrowers end up paying developed country interest rates without the exchange rate, save that risk. And the central bank lost a lot of money there.

The other is where . . .

WEBB: And they would finance it by borrowing?

ENCARNACION: Well, as I say I need pesos.

WEBB: Rather than printing money?

ENCARNACION: Yeah, because the central bank wanted dollars because they got a better exchange rate. So if I'm a businessman, I need pesos. I don't really need dollars. Interest rates here are rather high. So what do I do? I go to the U.S. I borrow. I turn around and swap the dollars for peso loans, and of course I gain because the interest rates are much lower, not corporate exchange rates risk. So the central bank in effect was the ultimate borrower in these swaps.

And then the other thing that happened was the rescheduling. With the rescheduling some borrowers, some private borrowers had foreign debts wanted to--since they had money they wanted to retire some of the debt or pay interest. The central bank said, "Well, give us the pesos, and we will absorb your dollar debt." So a lot of domestic, a lot of private external debt got converted into central bank external debt, sort of peso blocking. So now the exposure of the central bank is huge. So any devaluation causes problems for the central bank. So unless the problem is solved, we'll always have the central bank being rather irrational about the foreign exchange rate.

If you look at *Asia Week*, the Philippines is--*Asia Week* has a regular table of currency spreads to the U.S. dollar. You can guess which currency has the biggest appreciation against the U.S. dollar during the last six months and during the last twelve months: the Philippines. Number two was new Taiwan dollar. We were one of the few currencies that appreciated against the U.S. dollar during the last twelve months. The last six months and the last twelve months. So sometimes the motive is bureaucratic; sometimes the motive is the financial position against the dollar.

But, Richard, you're right. The central bank here has been rather different from central banks in other countries. You hear it less in some role reversal here, the central bank being, the central bank and the—well, understandably the department of trade and industry being very, very protectionist . . .

KAPUR: Right.

ENCARNACION: . . . but not the central bank being very interventionist and NEDA being pro-liberalization.

KAPUR: Is there any movement of bureaucrats between NEDA and the central bank?

ENCARNACION: No.

KAPUR: There hasn't been any? I was wondering if they would take their mind set there and get a sense of appreciation of the other side.

ENCARNACION: Rarely, because central bank is a career, different career paths in both of them.

WEBB: Yeah, yeah. Different phone numbers even.

ENCARNACION: Very different, very different. And until they set the *[inaudible]* up, very different pay scales.

WEBB: The ministry of finance has an office in the central bank, doesn't it?

ENCARNACION: The minister of finance is also automatically a member of the monetary board, so the minister of finance would in fact have a big office right on the second or third floor. So does the NEDA director-general.

WEBB: Oh, really?

ENCARNACION: Yeah, he has an office there, too. There's office space there.

WEBB: So all the economic administration is in one building?

ENCARNACION: Well, no, no, these are extra offices. They spend time there.

WEBB: Oh, extra offices.

MEDALLA: Because they are members of the board, monetary board.

ENCARNACION: Because they are members of the board. I would say there is some extra office [several speaking at once] They spend easily one or two days per week in that office.

MEDALLA: But they have their own offices. The secretary of finance has its glass building. *[inaudible]*

ENCARNACION: There's another thing about the central, our central bank is hardly, the structure is hardly one would say independent of the national government because the key players are themselves the ministers in finance, trade, industry, NEDA, agriculture.

MEDALLA: *[inaudible]* [several speaking at once] KDIA, finance, NEDA, and . .

ENCARNACION: I think budget. That sometimes helps, I think, because there's no--because of this very weak financial position of the central bank, the government has to help, the national government has to help it in a very underhanded way.

WEBB: Yeah.

ENCARNACION: So what it does is the national government borrows money more than it needs to finance its own deficit. It deposits the rest with the central bank at way below market interest rates. So it is in effect carrying costs of central bank losses get deflected in books of the central bank.

WEBB: I saw a note today in the paper regarding the central bank deficit, saying that this has become a difficult point in the IMF negotiations, and it also said that the central bank refuses to publish figures on its own deficit.

ENCARNACION: It never appears in the profit and loss statements. They utilize a unique kind of accounting. Losses appear as assets in the balance sheet.

WEBB: Yeah, it's very hard to understand. *[Laughter]* I was eleven years in something like that. [all speaking at once]

ENCARNACION: It's creative accounting! Their accounts are suspense accounts. Losses are suspended.

KAPUR: Keep everyone in suspense.

*Jose Encarnacion and Felipe Medalla
November 29, 1991 - Verbatim*

ENCARNACION: It—but it's a tremendous problem that has to be faced somehow. I think the legislators would want an accounting of how all these losses were incurred before they absorb it, settle down, on the other hand, plus the national government absorbs it without giving any information.

KAPUR: Are the Bank and the Fund applying pressure?

ENCARNACION: I think the resolution of the central bank's problems are probably the most important talking point with the IMF.

WEBB: It sounds to me as if the--this is one factor that may have made life more difficult for the World Bank here because normally a central bank is a stable friend of the World Bank . .

ENCARNACION: Well, it is a friend.

WEBB: . . because ministers come and go.

ENCARNACION: It's a friend, you know, it's very--you will never hear negative statements about the World Bank inside the bank.

WEBB: Yeah.

KAPUR: But you're saying it's a friend because it needs the dollars.

ENCARNACION: Exactly. If I poll all the--there are two ministries that could be the source of negative statements about the World Bank, it would be the department of trade and industry.

WEBB: But the Bank has been resisting, or not so much, liberalization, financial liberalization?

ENCARNACION: But the central bank persists in a very different way. You know, it never says "no," but it doesn't do it.

WEBB: Uh-huh. But on the surface things are . . .

ENCARNACION: The central bank is very good in simulating agreements with the World Bank and the IMF, but when you look deeper it's—there's layer after layer of--if one layer goes there's another layer.

WEBB: Yeah.

You know, I'm embarrassed that we've taken so much of your time on this.

MEDALLA: How long have you been in town? You're leaving tomorrow?

WEBB: We're leaving tomorrow, but I'm returning at the end of January to continue, for a longer stay.

*Jose Encarnacion and Felipe Medalla
November 29, 1991 - Verbatim*

ENCARNACION: *[inaudible]* some statistics . . .

KAPUR: We could send them to you.

MEDALLA: Or we could use the fax machine right away. It won't take two minutes.

KAPUR: *[inaudible]*

WEBB: It was very nice to have met you.

MEDALLA: Right. I was looking forward to meeting you. If you come next time, let us know.

WEBB: I'll call. Thank you very much. Would you say hello to Winnie?

MEDALLA: Yeah, okay, I'll do that. *[departs]*

[personal conversation while waiting for copies]

WEBB: I'm sorry, but when you came in I didn't get your name.

UNKNOWN MAN: I have a card.

[End Tape 1, Side B]

[End of interview]